



BAY STATE CONSULTANTS

July 31, 2002

Secretary Mary Cottrell
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: D.T.E. 02-40

Dear Secretary Cottrell:

We would like to offer the following comments regarding the Department's Notice of Inquiry regarding default service. We appreciate the opportunity to make these comments. The department decisions regarding the structure of the upcoming procurements for default service can be very helpful in removing some of the regulatory barriers to the development of the competitive market in Massachusetts.

We applaud the willingness expressed in the NOI to consider the steps necessary to make the default service product and the competitive supply product equivalent products. The addition of the appropriate cost adders for administrative cost and bad debt is an encouraging first step in this direction. However, we believe there are two other costs of greater magnitude that need to be closely evaluated if the department is serious about creating a true "apples-to-apples" comparison between the default service product and competitive supply product.

The cost of congestion, and the cost of the electronic business transaction are both embedded in the cost of competitive supply. Neither of these costs is embedded, at present, in the default service product or the standard offer product.

Cost of Congestion

It is fairly clear that the utility procurements for default service beginning in November 2002, (MECO) and January 2003 (BECO) will of necessity have to deal with the cost of congestion in some fashion. We believe that the policy objective of fostering efficient competitive markets can be advanced if these procurements are used to improve the pricing signals regarding congestion costs.

It will be a set back for the continued development of the competitive markets if Mass. Electric, for example, procures only one price for default service for each rate class throughout its service territory, with a service territory average congestion cost included in that one default price for each rate class. Since the true cost of congestion in NEMA is expected to be higher than the true cost of congestion in WMA, the DTE regulatory decision to approve an average congestion cost embedded in the MECO default service contract, would represent the regulatory creation of winners and losers in the competitive market.

All else being equal, Mass Electric consumers in WMA would be encouraged to pursue competitive supply in order to avoid the arbitrarily increased congestion costs in the MECO default rate. On the other hand, Mass. Electric default consumers in NEMA, would be encouraged to remain on default service with its subsidized congestion cost, rather than be exposed to the true, NEMA specific congestion cost in a competitive supply contract procured for that NEMA specific load. Given the magnitude of the congestion cost adders in recent competitive procurements, this is not a small issue.

By contrast, if the department encourages Mass Electric to procure one default price, plus a NEMA specific congestion pass through for NEMA customers, and WMA specific markup for WMA consumers, the department can accomplish several worthy objectives, by simply issuing that policy directive. These would include the following:

- A) Avoid the cross subsidy that would otherwise be created in the form of a congestion advantage for NEMA consumers over of WMA consumers;
- B) Promote the policies behind the implementation of the congestion management system by avoiding the re-socializing of a recently de-socialized congestion cost;
- C) Provide valuable market signals regarding the actual cost of congestion in the different zones;
- D) Promote the continued development of an efficient competitive market by maintaining a true apples to apples comparison between the cost of competitive supply and the cost of default supply in each congestion management zone.

We realize that this particular notice of inquiry is directed at default service. However, all of the above comments also apply to any utility procurements for standard offer supply that may be scheduled for this fall, or standard offer rates that are proposed for 2003. The DTE is the only agency that can send a regulatory signal to the distribution companies that the DTE wants to be in a position to analyze the manner in which congestion costs are included or not included in the standard offer rates that are proposed for calendar 2003.

Schedule

The uncertainty associated with the DTE's position on this congestion issue is already creating problems in the market. In two recent municipal procurements in the NEMA zone, competitive suppliers have already begun to add significant price adders, in the 5 to 6 mil range, associated

with covering the congestion cost risk. If consumers can avoid this cost by simply remaining on standard offer supply, or mitigate this cost through the re-socialization of congestion costs, the competitive markets will be set back. We encourage the DTE to address this issue as soon as possible.

Cost of the electronic business transaction

In the current structure of the default service product there is an imbalance unintentionally created between the cost of default supply and competitive supply, which is directly attributable to the cost of the electronic business transaction (EBT).

Competitive suppliers that out-source the EBT service report two levels of pricing for this EBT service. The typical cost for a single commercial accounts can be as high as \$100 per account to enroll accounts and \$100 per account to un-enroll accounts. This can be insignificant when spread over all of the kwh in a large account ($1/10^{\text{th}}$ of a mil per 2,000,000 kwh). When the EBT service is spread over a large volume of aggregated small accounts, (for example 10,000 small accounts) this EBT cost measures in the 1 to 2 mil per kwh range. A 1 to 2 mil per kwh cost is a significant cost in this market. The additional problem is how to price this service for suppliers that are enrolling one residential account, or one small commercial at a time.

If the department is serious about bringing the advantages of competitive supply to the residential consumer, it must deal with the glaring discrepancy between the burden of providing EBT service to 1,000 residents on default service, and 1,000 residents on competitive supply. If the default service provider can treat the 1,000 residents on default service as a single account for EBT purposes, even though the competitive supplier must treat the same 1,000 residents as 1,000 accounts for EBT purposes, the inherent subsidy of the EBT burden in the default service product will make the competitive supply product impractical for small consumers.

There is no difference between the load reporting obligations to ISO New England. ISO New England needs the same information regarding any group of 1,000 residents whether they are default customers or competitive supply customers. The cost of enrollment, the cost of un-enrollment, the cost of scheduling, is part of the cost of servicing every single account whether it is on default service, competitive service, or standard offer service. We encourage the department to develop a default service product, and for that matter a standard offer product, that is the equivalent of a competitive supply product in every respect. Given the potential magnitude of the EBT cost for small accounts, this is particularly essential with respect to the common treatment of EBT burdens and EBT cost.

There are essentially two ways to level the playing field in this regard. If the LDC can provide this EBT service at a very low cost per account, simply require the LDC to assume this enrollment and un-enrollment obligation, in the same way that the utility currently provides billing services. The same service that is provided to the default service provider would be provided to the competitive supplier. If there is a cost that needs to be recovered for this EBT service, identify that cost, and assign the appropriate cost adder for default customers and competitive supply customers alike. In the alternative, leave the burden of the enrollment, un-enrollment and other EBT transactions on the competitive supplier, but impose the exact same

burden on the default service provider. Both providers must have the same administrative burden for any 1,000 residential accounts, irrespective of whether those accounts are default service accounts or competitive supply accounts. The creation of a regulatory distinction in the EBT burden imposed on default providers versus competitive providers is a problem

The use of the LDC data reporting service may be efficient, but if that service is provided to default suppliers only, it creates an artificial LDC subsidy of the default service product.

Thank you for this opportunity to provide comments.

Sincerely,

John Shortsleeve